



Democratic Policy Committee  
United States Senate  
Washington, D.C. 20510-7050

Tom Daschle, Chairman  
Byron Dorgan, Co-Chairman

# DEMOCRATIC POLICY COMMITTEE

April 14, 1999

Publication: SR-13-Taxation (1999 Update)

## SPECIAL REPORT

### **Tax Relief for Working Americans: The Democratic Record**

DPC Staff Contact: Mike Jones (202-224-3232)



# Tax Relief for Working Americans: The Democratic Record

Democrats have worked hard to provide tax relief and make the tax code more fair for working families. In recent years, Democrats have supported targeted tax relief to help families with children, individuals saving for retirement, small businesses, students, and family farmers.

Democrats continue to push for more tax relief for working Americans. Senate Democrats have introduced several measures that would further reduce the tax burden for ordinary Americans. These proposals include:

- reducing the marriage penalty many couples face when they marry;
- helping communities repair or build new schools;
- improving retirement security;
- providing assistance to families in meeting the long-term care needs of an elderly or disabled family member; and
- expanding the tax credit for families with children, including those with a stay-at-home parent.

## The Democratic Record on Tax Relief

### ***The 1993 Budget***

In 1993, congressional Democrats passed a budget without a single Republican vote. The Democrats' economic strategy was designed to cut the deficit and invest in critical priorities, such as education and job training.

Republicans criticized the 1993 budget as the largest tax increase in history. *The Wall Street Journal*, however, refuted this claim in an article in October, 1994 (*The Wall Street Journal*, 10/26/94). Rather than providing for the largest tax increase in history, the 1993 budget has paved the way for the longest peacetime expansion in American history.

The 1993 budget actually reduced the amount of income tax paid by millions of Americans. The most significant tax cuts in the 1993 budget were an expansion of the Earned Income Tax Credit (EITC) and tax relief for small businesses.

**Expanding the EITC.** In 1993, Democrats expanded the EITC to provide tax cuts for 15 million low- and moderate-income families. The EITC primarily benefits working families with children and incomes below \$30,000. The average family with two kids who received the EITC got a tax cut of \$1,026. The expansion of the EITC has made a particularly big difference for millions of low-income Americans, more than doubling the number of people who were lifted out of poverty by the EITC from 1993 to 1997.

**Helping small business.** The 1993 budget included several provisions important to small businesses, including an increase in the expensing limit for small businesses, and a special capital gains tax cut for investments in small businesses. The expensing limit allows small businesses to deduct some or all of their capital investment immediately rather than depreciating it over time. Without a single Republican vote, Democrats increased this limit to \$17,500 in 1993. The capital gains provisions were designed to help small businesses attract the capital they need to expand and create new jobs.

### ***Blocking the Misplaced Priorities of the 1995 Republican Budget***

In 1995, Democrats fought hard against the Republican attempt to cut important priorities such as Medicare, Medicaid, education and the environment to pay for generous new tax breaks for the wealthiest Americans. Republicans shut down the government twice in an attempt to blackmail the President into accepting their misguided budget. President Clinton and congressional Democrats held their ground and blocked Republican efforts to pass tax cuts that disproportionately benefitted the wealthy.

## ***The 1996 Minimum Wage Bill Provided Tax Relief for Small Businesses***

In 1996, Congress included a variety of small business tax provisions in legislation that increased the minimum wage. Among those provisions were several measures that were part of the Democratic Families First Agenda.

**Retirement security.** The Families First Agenda called for a simple small business 401(k) plan to expand pension coverage to millions of Americans working in small businesses. The minimum wage bill included a similar provision providing such an option for small businesses. This Savings Incentive Match Plan for Employees (SIMPLE) plan may be established by employers with 100 or fewer employees who do not offer another retirement plan.

The plans could be offered either in the form of an Individual Retirement Account (IRA) or a 401(k) plan. In either case, employees would contribute a percentage of their income—up to \$6,000 per year—and employers would provide a match of up to three percent. Employer contributions would be tax-deductible and employees could defer taxes until retirement.

The minimum wage bill also allowed non-profit organizations to establish 401(k) plans for their employees and contained a number of other pension simplification provisions included in the Families First Agenda.

**Small business.** The minimum wage bill also phased in an increase in the expensing limit, raising it to \$25,000 by 2003.

## ***The 1997 Budget: Democrats Deliver Tax Relief***

During debate surrounding the *Balanced Budget Act of 1997* (BBA), Republicans fought to provide as many tax breaks as possible for the wealthiest Americans, with little regard for their long-term costs. The GOP made these tax breaks the price of a balanced budget and middle-class tax cut.

Democrats succeeded in forcing important changes in the conference report to deliver a larger tax cut to middle-class families than was included in either the House or Senate bills. Democrats won:

- a \$500 per-child credit for millions of families making less than \$30,000;
- President Clinton's full education tax cuts;
- estate tax relief targeted toward family farmers and small business people;
- capital gains tax relief;
- IRA provisions targeted toward the middle-class; and
- fiscally responsible changes to the capital gains and IRA provisions.

### ***Tax Relief Measures Included in the Balanced Budget Agreement***

#### **\$500 Per-Child Tax Credit**

- A \$500 per-child tax credit for children under age 17.
- The credit phases out at incomes above \$110,000 (\$75,000 for single parents).
- Available to millions of families making less than \$30,000.
- The credit can be put into an education IRA.

#### **Education Tax Cuts**

- A \$1,500 HOPE Scholarship tax credit for the first two years of college, and a \$2,000 tuition tax credit for college juniors and seniors, graduate students, and part-time students.
- Penalty-free IRA withdrawals for education and a new education IRA.
- A three-year extension of tax-free treatment for employer-paid educational expenses.
- A tax deduction of up to \$2,500 per year for student loan interest.

- Expanded tax-free treatment for State tuition plans.
- Tax-free treatment of student loan forgiveness for community service.
- Tax-exempt bond provisions to encourage school construction.

### **Expanded Individual Retirement Accounts (IRAs)**

- Gradually doubles existing IRA income limits to \$50,000 (\$80,000 for couples).
- Penalty-free withdrawals for education expenses and first-time homebuyers.
- New IRA options, including education IRAs and an IRA with tax-free earnings.
- IRA deductions regardless of spouse's retirement plan.

### **Estate Tax Relief**

- The BBA created a new \$650,000 exclusion (\$1.3 million for couples) from estate taxes for family farms and family businesses, in addition to the existing unified credit that exempts \$600,000 from tax.
- The unified credit gradually will increase to exempt \$1 million by 2007.

### **Capital Gains Tax Relief**

- A two-tier capital gains rate—ten percent for taxpayers in the 15 percent tax bracket and 20 percent for taxpayers in higher brackets.
- No taxes on up to \$500,000 in profit on the sale of a home (\$250,000 for single taxpayers).

## **Other Provisions**

- A tax incentive to encourage private sector cleanups and redevelopment of 14,000 contaminated brownfield sites, many in distressed communities.
- A welfare-to-work tax credit for employers who hire long-term welfare recipients.
- Expanded eligibility for the home office deduction.
- A more rapid increase of the deduction self-employed taxpayers can claim for their health insurance premiums.

## ***More Tax Relief in 1998***

At the end of 1998, several tax initiatives supported by Senate Democrats were included in the *Omnibus Appropriations Act of 1999*. These tax cuts include:

- acceleration of the self-employed health insurance deduction, reaching 100 percent in 2003;
- permanently extending income averaging for farmers, which was set to expire at the end of 2000; and
- increasing private activity bond cap.

## ***Democrats Already Have Cut Taxes***

Both the 1993 and 1997 budgets included tax cuts for working families that Democrats enacted into law over Republican objections. An expanded earned income tax credit, a \$500 per-child tax credit, and education tax relief are among the Democratic achievements for working families in those budgets. These bills have helped working families significantly—the typical middle-income family now has its lowest tax burden in more than 20 years.

- According to a Treasury Department analysis, families of four at the median income (\$55,000) have an average total Federal tax rate of 15.11 percent today. That is the lowest rate for those families since 1976 (*Dept. of Treasury, Office of Tax Analysis, 1/15/98*).
- The average rate for a family of four with half the median income (about \$27,000) is 6.47 percent, the lowest rate since 1966 (*Dept. of Treasury, Office of Tax Analysis, 1/15/98*).
- The average rate for a family of four with twice the median income (\$110,000) is at its lowest level since 1988 and lower than it was in any year from 1978 through 1987 (*Dept. of Treasury, Office of Tax Analysis, 1/15/98*).

## ***Democrats Are Working for More Tax Relief***

Democrats have shown that it is possible to balance the budget *and* provide significant tax relief for working Americans. Democrats understand that growing surpluses present an opportunity to secure the future of Social Security and Medicare first, and to provide more tax relief once those two important programs have been addressed. To that end, Democrats have proposed several additional tax relief measures.

- **Marriage Penalty Tax Relief.** Democrats want to make sure that families in which both spouses work are treated fairly under the tax code. This tax cut would be available to families with combined incomes of up to \$70,000; would be factored into the Earned Income Tax Credit (EITC); and is targeted to two-earner families who actually experience a marriage penalty. This proposal is included in **S. 8**, the *Income Security Enhancement Act*.
- **Pension reform/retirement security.** **S. 8** provides a \$1,000 tax credit to help small businesses cover the cost of setting up new pension plans.
- **Long-term Care Tax Credit.** **S. 10**, the *Health Protection and Assistance for Older Americans Act*, includes a \$1,000 tax credit for family members who care for or house their ill or disabled relatives. This proposal supports the needs of families by compensating for people of all ages with three or more limitations in daily activities or a comparative cognitive impairment. About two million Americans, including 1.2 million older Americans, will benefit from this provision.



- **Dependent Care Tax Credit.** Senate Democrats introduced **S. 17**, the *Child Care ACCESS Act*, which includes an expansion of the Dependent Care Tax Credit for families earning under \$60,000. A family earning \$35,000 would see its benefit double from \$480 to \$1,080. In addition, this credit is refundable so that working families with little or no tax liability can receive assistance. This legislation also allows stay-at-home parents with children under the age of one to claim a portion of the tax credit.
- **Modernizing our schools.** Democrats favor new tax incentives to help communities repair or build 5,000 new schools across the country. Senate Democrats have introduced **S. 7**, the *Public Schools Excellence Act*, which incorporates this proposal.
- **USA Accounts.** The Administration's budget proposes to establish Universal Savings Accounts (USA) to help working Americans save for their retirement. This tax cut of more than \$500 billion over fifteen years would provide assistance to millions of Americans, particularly those who do not typically enjoy an employer-sponsored pension plan or individual retirement account.
- **Simplification and tax reform.** The tax code is still too complex for many Americans. Democrats want to simplify the tax code and make it more fair to hard-working taxpayers. Democrats also supported legislation enacted last year that reformed the practices of the Internal Revenue Service.